Section 2.3: Graduated Income Tax

Objective: Determine state taxes on a graduated income tax basis.

Some states have a *graduated income tax*, which ~~is~~ increases the tax rate at different levels of income. The tax increases as the income increases.

Tax withheld per pay period:

$$\text{Taxes withheld per pay period} = \frac{\text{Annual Tax Withheld}}{\#\text{ of pay periods per year}}$$

Review:

# of Pay Periods per Year	Pay Period
12	monthly
24	semi-monthly
52	Weekly
26	Biweekly

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First $1,000	1.5%
Next $2,000	3.0%
Next $2,000	4.5%
Over $5,000	5.0%
Exemptions	
Single	$2,000
Married	$4,000
Each Dependent	$2,000

1) Louis Main's annual salary as a police officer is $34,500. She receives her pay semimonthly, or twice a month. Her exemptions total $2,000. Use Figure 2.3 to determine how much her employer deducts for state income tax from each of her semimonthly paychecks.

① $2,000 exemption amt.

② 34500 − 2000 = 32,500 taxable wages

③ 1000(.015) = $15

2000(0.03) = $60

2000(0.045) = $90

(32,500 − 5000)(0.05) = $1375

15 + 60 + 90 + 1375 = $1540 annual SIT

④ $\frac{1540}{24}$ = $64.17 semi-monthly SIT

2) Louis got a raise and her annual salary is now $42,600. She also had another child so that her exemptions total $4,000. Also, she is paid monthly now. Use Figure 2.3 to determine how much her employer should deduct for 'SIT' from each paycheck.

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First $1,000	1.5%
Next $2,000	3.0%
Next $2,000	4.5%
Over $5,000	5.0%
Exemptions	
Single	$2,000
Married	$4,000
Each Dependent	$2,000

① $4000 exemption amt.

② 42,600 − 4000 = $38,600 taxable wages

③ 1000 (0.015) = $15

2000 (0.03) = $60

2000 (0.045) = $90

(38,600 − 5000)(0.05) = $1680

15 + 60 + 90 + 1680 = $1845 annual SIT

④ $\frac{1845}{12}$ = $153.75 monthly SIT

3) Lydia Robin's annual salary from Dresler & Everhard is $67.500. She is married, has one dependent and is paid monthly. Use figure 2.3 to find the tax withheld per pay period.

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First $1,000	1.5%
Next $2,000	3.0%
Next $2,000	4.5%
Over $5,000	5.0%
Exemptions	
Single	$2,000
Married	$4,000
Each Dependent	$2,000

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4) Eddie Black is single and receives his pay biweekly, or every 2 weeks. His annual salary as a tailor for Whyte and Broom is $21,350. Use figure 2.3 to find the tax withheld per pay period.

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First $1,000	1.5%
Next $2,000	3.0%
Next $2,000	4.5%
Over $5,000	5.0%
Exemptions	
Single	$2,000
Married	$4,000
Each Dependent	$2,000

① $2000 exemptions

② 21,350 − 2000 = $19,350 taxable wages

③ 1000 (.015) = $15

2000 (.03) = $60

2000 (.045) = $90

(19350 − 5000)(.05) = $717.50

15 + 60 + 90 + 717.50 = $882.50 annual SIT

④ $\frac{882.50}{26}$ = $33.94 bi-weekly SIT

5) Annie works as a dental assistant and has an annual gross pay of $26,470. Her exemptions total $2,200. The state tax on the first $4500 is 1.8% and on amounts over $4500 is 3.1%.

a) Find the state tax withheld.

① $2,200 exemption amt.

② 26,470 − 2,200 = $24,270 taxable wages

③ 4500(0.018) = $81

(24270 − 4500)(0.031) = $612.87

81 + 612.87 = $693.87 annual SIT

b) If she gets paid weekly, how much 'SIT' is withheld from each paycheck?

$\frac{693.87}{52} = \$13.34$ weekly SIT

Assignment:

p. 136 #3-6, 8-12 (#7 bonus) MUST SHOW ALL WORK!!!